

PERAC AUDIT REPORT



State and Mass Turnpike Authority
Contributory Retirement System



For the Three-Year Period
JAN. 1, 2010 - DEC. 31, 2012



And the Six-Month Period
JAN. 1, 2013 - JUN. 30, 2013



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PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

PHILIP Y. BROWN, ESQ., *Chairman*

JOSEPH E. CONNARTON, *Executive Director*

Auditor SUZANNE M. BUMP | KATHLEEN M. FALLON | KATE FITZPATRICK | JAMES M. MACHADO | ROBERT B. MCCARTHY | JENNIFER F. SULLIVAN

June 28, 2016

The Public Employee Retirement Administration Commission has completed an examination of the State And Mass Turnpike Authority Retirement System pursuant to G.L. c. 32, § 21. The examination covered the period from January 1, 2010 to December 31, 2012. This audit was conducted in accordance with the accounting and management standards established by the Public Employee Retirement Administration Commission, in regulation 840 CMR 25.00. Additionally, all supplementary regulations approved by PERAC and on file at PERAC are listed in this report.

In our opinion, the financial records are being maintained and the management functions are being performed in conformity with the standards established by the Public Employee Retirement Administration Commission with the exception of that noted in the finding presented in this report.

In closing, I acknowledge the work of examiners James Tivnan, James Ryan and Sam O'Brien who conducted this examination, and express appreciation to the Board of Retirement and staff for their courtesy and cooperation.

Sincerely,


Joseph E. Connarton
Executive Director



EXPLANATION OF FINDING AND RECOMMENDATION

Continuing Recognition of the Turnpike Authority as a Separate Component Unit

Pursuant to the provisions of § 159 of Chapter 25 of the Acts of 2009, as amended by Chapter 26 of the Acts of 2009, on November 1, 2009 custody of Massachusetts Turnpike Authority Employees' Retirement System assets was transferred to the State Treasurer and management of the System was transferred to the State Board of Retirement. All future benefit payments made under G.L. c. 32 §§ 1 to 28 inclusive became obligations of the Commonwealth of Massachusetts. Subject to the technical amendments contained in Chapter 26 of the Acts of 2009, participants in the plan who did not transfer to or enter service in a governmental plan in which a contributory retirement plan was established under Chapter 32 continue as members of The Massachusetts Turnpike Authority Employees' Retirement System and shall be entitled to benefits as outlined in the plan.

The former Massachusetts Turnpike Authority Employees' Retirement Board was abolished but the System was not. The State Treasurer and State Board of Retirement retain the accounting distinction and maintain the books and records in separate ledgers. After five years, separate fund balances are retained, the separate investment portfolio is virtually identical to the State system, separate management and custodial fees are assessed to both systems, inactive member ASF balances are separately maintained, reporting of results within the financial statements of the Commonwealth of Massachusetts are consolidated and numerous duplicate functions and related accounting and financial controls are exercised during the normal operations of the State Board of Retirement. The future benefit obligations inherent to members retained within the Massachusetts Turnpike Authority Employees' Retirement Plan are included in the valuation study conducted by PERAC. The funding schedule established for the Commonwealth includes provision for these obligations.

These practices are inefficient functions for the State Board of Retirement, as any reader of this report can tell from the series of tables included within. The distinctions maintained by each plan are imperceptible. The ultimate liability for any benefit obligations remain with the Commonwealth of Massachusetts. Enabling bills designed to remedy this technicality have not advanced in the legislature.

Recommendation: No pretense of necessity remains for the separate accounting records maintained for the former Massachusetts Turnpike Authority Employees' Retirement Plan. The investment portfolio and the members' cumulative accounts should be merged and consolidated into the State Employees Retirement System. The legislative remedy required for technical legal rectification is an impediment to the effective operation of the system.

Board Response:

On multiple occasions the board through the Treasurer's Office has filed legislation to consolidate the membership and finances of the former Turnpike Employees Retirement system with that of the MSERS, by amending the relevant portions of Chapter 25 of the Acts of 2009. Previous attempts, citing prior audit recommendations, have not been successful. Legislation will be filed again in the next upcoming legislative session with the support of the Board and the Office of the Treasurer. The MSRB would welcome the further support of PERAC in this regard when the legislation has been filed.

EXPLANATION OF FINDINGS AND RECOMMENDATIONS (Continued)

FINAL DETERMINATION:

PERAC Audit staff will follow up in six (6) months to ensure appropriate actions have been taken regarding all findings.

CONSOLIDATED STATE EMPLOYEES' AND MASSACHUSETTS TURNPIKE AUTHORITY COMBINED STATEMENT OF LEDGER ASSETS AND LIABILITIES

AS OF DECEMBER 31,			
	2012	2011	2010
Net Assets Available For Benefits:			
Cash	\$89,002,202	\$25,379,332	\$16,802,377
PRIT Cash Fund	13,214,179	15,612,058	17,982,455
PRIT Core Fund	20,391,789,624	18,627,700,893	19,253,562,254
Prepaid Expenses	0	28,121	52,810
Accounts Receivable	826,662	1,316,384	16,936,126
Accounts Payable	(619,092)	(304,220)	(15,945,451)
Total	<u>\$20,494,213,575</u>	<u>\$18,669,732,568</u>	<u>\$19,289,390,572</u>
Fund Balances:			
Annuity Savings Fund	\$5,414,714,336	\$5,231,388,449	\$5,014,364,086
Annuity Reserve Fund	1,474,921,040	1,432,181,186	1,370,873,112
Pension Fund	0	0	0
Military Service Fund	48,133	48,204	50,270
Expense Fund	0	0	0
Pension Reserve Fund	13,604,530,066	12,006,114,729	12,904,103,104
Total	<u>\$20,494,213,575</u>	<u>\$18,669,732,568</u>	<u>\$19,289,390,572</u>

**CONSOLIDATED STATE EMPLOYEES' AND MASSACHUSETTS TURNPIKE AUTHORITY COMBINED
STATEMENT OF CHANGES IN FUND BALANCES**

	Annuity Savings Fund	Annuity Reserve Fund	Pension Fund	Military Service Fund	Expense Fund	Pension Reserve Fund	Total All Funds
Beginning Balance (2010)	\$4,791,743,281	\$1,281,777,648	\$0	\$53,560	\$0	\$11,470,297,223	\$17,543,871,712
Receipts	553,157,325	39,639,320	486,702,986	155	106,294,790	2,184,929,329	3,370,723,904
Interfund Transfers	(281,380,929)	273,476,451	759,031,372	(3,446)	0	(751,123,448)	0
Disbursements	(49,155,591)	(224,020,306)	(1,245,734,357)	0	(106,294,790)	0	(1,625,205,044)
Ending Balance (2010)	5,014,364,086	1,370,873,112	0	50,270	0	12,904,103,104	19,289,390,572
Receipts	538,285,990	41,395,163	526,275,070	98	114,962,576	(108,993,369)	1,111,925,527
Interfund Transfers	(263,414,382)	261,779,184	790,632,365	(2,163)	0	(788,995,005)	0
Disbursements	(57,847,247)	(241,866,274)	(1,316,907,435)	0	(114,962,576)	0	(1,731,583,531)
Ending Balance (2011)	5,231,388,448	1,432,181,186	0	48,204	0	12,006,114,730	18,669,732,568
Receipts	504,137,386	42,813,740	585,879,256	48	130,900,958	2,387,010,075	3,650,741,463
Interfund Transfers	(261,652,636)	260,793,992	789,453,501	(119)	0	(788,594,738)	0
Disbursements	(59,158,864)	(260,867,878)	(1,375,332,757)	0	(130,900,958)	0	(1,826,260,456)
Ending Balance (2012)	\$5,414,714,335	\$1,474,921,040	\$0	\$48,133	\$0	\$13,604,530,067	\$20,494,213,575

CONSOLIDATED STATE EMPLOYEES' AND MASSACHUSETTS TURNPIKE AUTHORITY COMBINED STATEMENT OF RECEIPTS

FOR THE PERIOD ENDING DECEMBER 31,			
	2012	2011	2010
Annuity Savings Fund:			
Members Deductions	\$481,616,852	\$460,716,310	\$446,430,218
Transfers from Other Systems	7,940,883	59,821,525	84,165,595
Member Make Up Payments and Re-deposits	3,411,304	3,338,141	3,591,455
Member Payments from Rollovers	5,936,958	4,381,285	4,594,827
Investment Income Credited to Member Account	5,231,388	10,028,728	14,375,230
Sub Total	<u>504,137,386</u>	<u>538,285,990</u>	<u>553,157,325</u>
Annuity Reserve Fund:			
Investment Income Credited to the Annuity Reserve Fund	42,813,740	41,395,163	39,639,320
Sub Total	<u>42,813,740</u>	<u>41,395,163</u>	<u>39,639,320</u>
Pension Fund:			
3 (8) (c) Reimbursements from Other Systems	32,558,323	31,772,352	31,085,904
Pension Fund Appropriation	552,306,500	494,229,002	455,369,723
Settlement of Workers' Compensation Claims	1,014,433	273,716	247,359
Recovery of 91A Overearnings	0	0	0
Sub Total	<u>585,879,256</u>	<u>526,275,070</u>	<u>486,702,986</u>
Military Service Fund:			
Investment Income Credited to the Military Service Fund	48	98	155
Sub Total	<u>48</u>	<u>98</u>	<u>155</u>
Expense Fund:			
Investment Income Credited to the Expense Fund	130,900,958	114,962,576	106,294,790
Sub Total	<u>130,900,958</u>	<u>114,962,576</u>	<u>106,294,790</u>
Pension Reserve Fund:			
Federal Grant Reimbursement	6,168,087	6,744,384	6,532,442
Interest Not Refunded	284,197	441,732	435,730
Miscellaneous Income	72,810	22,048	39,186
Excess Investment Income (Loss)	2,380,484,981	(116,201,534)	2,177,921,972
Sub Total	<u>2,387,010,075</u>	<u>(108,993,369)</u>	<u>2,184,929,329</u>
Total Receipts, Net	<u>\$3,650,741,463</u>	<u>\$1,111,925,527</u>	<u>\$3,370,723,904</u>

CONSOLIDATED STATE EMPLOYEES' AND MASSACHUSETTS TURNPIKE AUTHORITY COMBINED STATEMENT OF DISBURSEMENTS

FOR THE PERIOD ENDING DECEMBER 31,			
	2012	2011	2010
Annuity Savings Fund:			
Refunds to Members	\$57,184,550	\$55,712,736	\$47,737,141
Transfers to Other Systems	<u>1,974,314</u>	<u>2,134,511</u>	<u>1,418,450</u>
Sub Total	<u>59,158,864</u>	<u>57,847,247</u>	<u>49,155,591</u>
Annuity Reserve Fund:			
Annuities Paid	257,691,852	239,162,363	220,848,336
Option B Refunds	<u>3,176,026</u>	<u>2,703,910</u>	<u>3,171,971</u>
Sub Total	<u>260,867,878</u>	<u>241,866,274</u>	<u>224,020,306</u>
Pension Fund:			
Pensions Paid:			
Regular Pension Payments	1,099,958,918	1,042,699,126	987,910,567
Survivorship Payments	67,709,897	64,161,617	61,106,947
Ordinary Disability Payments	9,715,545	9,721,028	9,480,523
Accidental Disability Payments	102,117,824	99,109,993	93,878,990
Accidental Death Payments	11,162,756	11,053,023	10,790,844
Section 101 Benefits	4,580,905	4,006,918	3,465,473
3 (8) (c) Reimbursements to Other Systems	9,928,946	10,508,845	6,417,773
State Reimbursable COLA's Paid	38,025,538	44,446,732	41,933,782
Chapter 389 Beneficiary Increase Paid	<u>32,132,427</u>	<u>31,200,152</u>	<u>30,749,458</u>
Sub Total	<u>1,375,332,757</u>	<u>1,316,907,435</u>	<u>1,245,734,357</u>
Expense Fund:			
Board Member Stipend	0	0	0
Salaries	4,072,605	3,678,624	3,273,893
Legal Expenses	97,156	19,303	37,184
Travel Expenses	14,164	9,643	5,744
Administrative Expenses	475,296	475,111	545,597
Professional Services	2,753,954	2,287,031	2,669,634
Furniture and Equipment	562,379	132,012	77,685
Management Fees	93,360,561	85,998,575	74,323,233
Custodial Fees	10,984,840	9,475,444	9,609,247
Rent Expenses	82,970	14,924	14,924
Service Contracts	452,050	473,480	495,272
Higher Ed Optional Retirement Program	14,692,517	8,737,097	12,377,203
PERAC Expenses	<u>3,352,466</u>	<u>3,661,332</u>	<u>2,865,172</u>
Sub Total	<u>130,900,958</u>	<u>114,962,576</u>	<u>106,294,790</u>
Total Disbursements	<u>\$1,826,260,456</u>	<u>\$1,731,583,531</u>	<u>\$1,625,205,044</u>

CONSOLIDATED STATE EMPLOYEES' AND MASSACHUSETTS TURNPIKE AUTHORITY COMBINED INVESTMENT INCOME

	FOR THE PERIOD ENDING DECEMBER 31,		
	2012	2011	2010
Investment Income Received From:			
Pooled or Mutual Funds	\$623,874,785	\$583,184,526	\$515,550,265
Total Investment Income	<u>623,874,785</u>	<u>583,184,526</u>	<u>515,550,265</u>
Plus:			
Realized Gains	505,089,690	595,109,774	478,426,757
Unrealized Gains	<u>2,642,375,698</u>	<u>1,882,727,336</u>	<u>3,513,757,006</u>
Sub Total	<u>3,147,465,388</u>	<u>2,477,837,111</u>	<u>3,992,183,763</u>
Less:			
Realized Loss	0	(10,724,707)	(15,700,546)
Unrealized Loss	<u>(1,211,909,058)</u>	<u>(3,000,111,898)</u>	<u>(2,153,802,014)</u>
Sub Total	<u>(1,211,909,058)</u>	<u>(3,010,836,605)</u>	<u>(2,169,502,560)</u>
Net Investment Income	<u>2,559,431,115</u>	<u>50,185,032</u>	<u>2,338,231,467</u>
Income Required:			
Annuity Savings Fund	5,231,388	10,028,728	14,375,230
Annuity Reserve Fund	42,813,740	41,395,163	39,639,320
Military Service Fund	48	98	155
Expense Fund	<u>130,900,958</u>	<u>114,962,576</u>	<u>106,294,790</u>
Total Income Required	<u>178,946,135</u>	<u>166,386,565</u>	<u>160,309,495</u>
Net Investment Income	<u>2,559,431,115</u>	<u>50,185,032</u>	<u>2,338,231,467</u>
Less: Total Income Required	<u>178,946,135</u>	<u>166,386,565</u>	<u>160,309,495</u>
Excess Income (Loss) To The Pension Reserve Fund	<u>\$2,380,484,981</u>	<u>(\$116,201,534)</u>	<u>\$2,177,921,972</u>

STATE EMPLOYEES' RETIREMENT PLAN STATEMENT OF LEDGER ASSETS AND LIABILITIES

AS OF DECEMBER 31,			
	2012	2011	2010
Net Assets Available For Benefits:			
Cash	\$87,035,450	\$23,771,236	\$13,558,731
PRIT Cash Fund	13,169,461	15,570,572	17,908,608
PRIT Core Fund	20,210,716,727	18,451,481,781	19,060,337,987
Prepaid Expenses	0	28,121	52,810
Accounts Receivable	826,662	1,316,384	16,936,126
Accounts Payable	(247,958)	(230,436)	(15,299,676)
Total	<u>\$20,311,500,343</u>	<u>\$18,491,937,657</u>	<u>\$19,093,494,586</u>
Fund Balances:			
Annuity Savings Fund	\$5,349,831,786	\$5,163,895,622	\$4,944,928,316
Annuity Reserve Fund	1,454,463,559	1,411,635,021	1,349,030,949
Pension Fund	0	0	0
Military Service Fund	47,578	47,650	49,717
Expense Fund	0	0	0
Pension Reserve Fund	13,507,157,420	11,916,359,364	12,799,485,604
Total	<u>\$20,311,500,343</u>	<u>\$18,491,937,657</u>	<u>\$19,093,494,586</u>

STATE EMPLOYEES' RETIREMENT PLAN STATEMENT OF CHANGES IN FUND BALANCES

	Annuity Savings Fund	Annuity Reserve Fund	Pension Fund	Military Service Fund	Expense Fund	Pension Reserve Fund	Total All Funds
Beginning Balance (2010)	\$4,719,695,069	\$1,259,970,545	\$0	\$53,009	\$0	\$11,373,393,889	\$17,353,112,510
Receipts	552,941,180	38,992,075	486,366,540	154	105,426,641	2,162,814,993	3,346,541,584
Interfund Transfers	(279,198,116)	271,293,639	744,631,201	(3,446)	0	(736,723,278)	0
Disbursements	(48,509,816)	(221,225,309)	(1,230,997,741)	0	(105,426,641)	0	(1,606,159,508)
Ending Balance (2010)	4,944,928,316	1,349,030,949	0	49,717	0	12,799,485,604	19,093,494,586
Receipts	538,147,118	40,755,532	525,702,870	96	113,983,001	(108,184,578)	1,110,404,041
Interfund Transfers	(262,589,121)	260,953,924	776,579,022	(2,163)	0	(774,941,662)	0
Disbursements	(56,590,691)	(239,105,385)	(1,302,281,892)	0	(113,983,001)	0	(1,711,960,970)
Ending Balance (2011)	5,163,895,622	1,411,635,021	0	47,650	0	11,916,359,364	18,491,937,657
Receipts	504,069,893	42,210,745	585,413,862	48	129,951,230	2,365,177,346	3,626,823,123
Interfund Transfers	(259,475,915)	258,617,271	775,238,053	(119)	0	(774,379,290)	0
Disbursements	(58,657,815)	(257,999,478)	(1,360,651,915)	0	(129,951,230)	0	(1,807,260,437)
Ending Balance (2012)	\$5,349,831,786	\$1,454,463,559	\$0	\$47,578	\$0	\$13,507,157,420	\$20,311,500,343

STATE EMPLOYEES' RETIREMENT PLAN STATEMENT OF RECEIPTS

FOR THE PERIOD ENDING DECEMBER 31,			
	2012	2011	2010
Annuity Savings Fund:			
Members Deductions	\$481,616,852	\$460,716,310	\$446,430,218
Transfers from Other Systems	7,940,883	59,821,525	84,165,595
Member Make Up Payments and Re-deposits	3,411,304	3,338,141	3,591,455
Member Payments from Rollovers	5,936,958	4,381,285	4,594,827
Investment Income Credited to Member Accounts	<u>5,163,896</u>	<u>9,889,857</u>	<u>14,159,085</u>
Sub Total	<u>504,069,893</u>	<u>538,147,118</u>	<u>552,941,180</u>
Annuity Reserve Fund:			
Investment Income Credited to the Annuity Reserve Fund	<u>42,210,745</u>	<u>40,755,532</u>	<u>38,992,075</u>
Sub Total	<u>42,210,745</u>	<u>40,755,532</u>	<u>38,992,075</u>
Pension Fund:			
3 (8) (c) Reimbursements from Other Systems	32,132,427	31,200,152	30,749,458
Pension Fund Appropriation	552,306,500	494,229,002	455,369,723
Settlement of Workers' Compensation Claims	974,935	273,716	247,359
Recovery of 91A Overearnings	0	0	0
Sub Total	<u>585,413,862</u>	<u>525,702,870</u>	<u>486,366,540</u>
Military Service Fund:			
Investment Income Credited to the Military Service Fund	<u>48</u>	<u>96</u>	<u>154</u>
Sub Total	<u>48</u>	<u>96</u>	<u>154</u>
Expense Fund:			
Investment Income Credited to the Expense Fund	<u>129,951,230</u>	<u>113,983,001</u>	<u>105,426,641</u>
Sub Total	<u>129,951,230</u>	<u>113,983,001</u>	<u>105,426,641</u>
Pension Reserve Fund:			
Federal Grant Reimbursement	6,168,087	6,744,384	6,532,442
Interest Not Refunded	284,197	441,732	435,730
Miscellaneous Income	65,197	1,000	1,340
Excess Investment Income (Loss)	<u>2,358,659,864</u>	<u>(115,371,694)</u>	<u>2,155,845,482</u>
Sub Total	<u>2,365,177,346</u>	<u>(108,184,578)</u>	<u>2,162,814,993</u>
Total Receipts, Net	<u>\$3,626,823,123</u>	<u>\$1,110,404,041</u>	<u>\$3,346,541,584</u>

STATE EMPLOYEES' RETIREMENT PLAN STATEMENT OF DISBURSEMENTS

FOR THE PERIOD ENDING DECEMBER 31,			
	2012	2011	2010
Annuity Savings Fund:			
Refunds to Members	\$56,683,501	\$54,941,510	\$47,091,366
Transfers to Other Systems	<u>1,974,314</u>	<u>1,649,181</u>	<u>1,418,450</u>
Sub Total	<u>58,657,815</u>	<u>56,590,691</u>	<u>48,509,816</u>
Annuity Reserve Fund:			
Annuities Paid	254,967,599	236,412,676	218,053,339
Option B Refunds	<u>3,031,878</u>	<u>2,692,709</u>	<u>3,171,971</u>
Sub Total	<u>257,999,478</u>	<u>239,105,385</u>	<u>221,225,309</u>
Pension Fund:			
Pensions Paid:			
Regular Pension Payments	1,087,580,607	1,030,368,315	975,530,833
Survivorship Payments	66,949,911	63,405,189	60,343,374
Ordinary Disability Payments	9,606,496	9,606,423	9,362,057
Accidental Disability Payments	100,971,638	97,941,545	92,705,907
Accidental Death Payments	11,037,464	10,922,715	10,656,005
Section 101 Benefits	4,529,488	3,959,679	3,422,170
3 (8) (c) Reimbursements to Other Systems	9,818,347	10,431,143	6,294,155
State Reimbursable COLA's Paid	38,025,538	44,446,732	41,933,782
Chapter 389 Beneficiary Increase Paid	<u>32,132,427</u>	<u>31,200,152</u>	<u>30,749,458</u>
Sub Total	<u>1,360,651,915</u>	<u>1,302,281,892</u>	<u>1,230,997,741</u>
Expense Fund:			
Salaries	4,072,605	3,678,624	3,273,893
Legal Expenses	97,156	9,296	37,184
Travel Expenses	14,164	9,643	5,744
Administrative Expenses	475,296	475,111	544,382
Professional Services	2,753,954	2,287,031	2,669,634
Furniture and Equipment	562,379	132,012	77,685
Management Fees	92,510,899	85,121,358	73,555,215
Custodial Fees	10,884,774	9,383,094	9,510,332
Rent Expenses	82,970	14,924	14,924
Service Contracts	452,050	473,480	495,272
Higher Ed Optional Retirement Program	14,692,517	8,737,097	12,377,203
PERAC Expenses	<u>3,352,466</u>	<u>3,661,332</u>	<u>2,865,172</u>
Sub Total	<u>129,951,230</u>	<u>113,983,001</u>	<u>105,426,641</u>
Total Disbursements	<u>\$1,807,260,437</u>	<u>\$1,711,960,970</u>	<u>\$1,606,159,508</u>

STATE EMPLOYEES' RETIREMENT PLAN INVESTMENT INCOME

FOR THE PERIOD ENDING DECEMBER 31,			
	2012	2011	2010
Investment Income Received From:			
Pooled or Mutual Funds	\$618,175,933	\$577,508,244	\$510,194,761
Total Investment Income	<u>618,175,933</u>	<u>577,508,244</u>	<u>510,194,761</u>
Plus:			
Realized Gains	500,460,784	589,293,276	473,482,833
Unrealized Gains	2,618,096,136	1,864,356,514	3,477,562,948
Sub Total	<u>3,118,556,920</u>	<u>2,453,649,790</u>	<u>3,951,045,781</u>
Less:			
Realized Loss	0	(10,621,728)	(15,536,573)
Unrealized Loss	(1,200,747,072)	(2,971,279,512)	(2,131,280,532)
Sub Total	<u>(1,200,747,072)</u>	<u>(2,981,901,240)</u>	<u>(2,146,817,104)</u>
Net Investment Income	<u>2,535,985,782</u>	<u>49,256,793</u>	<u>2,314,423,438</u>
Income Required:			
Annuity Savings Fund	5,163,896	9,889,857	14,159,085
Annuity Reserve Fund	42,210,745	40,755,532	38,992,075
Military Service Fund	48	96	154
Expense Fund	129,951,230	113,983,001	105,426,641
Total Income Required	<u>177,325,918</u>	<u>164,628,487</u>	<u>158,577,955</u>
Net Investment Income	<u>2,535,985,782</u>	<u>49,256,793</u>	<u>2,314,423,438</u>
Less: Total Income Required	<u>177,325,918</u>	<u>164,628,487</u>	<u>158,577,955</u>
Excess Income (Loss) To The Pension Reserve Fund	<u>\$2,358,659,864</u>	<u>(\$115,371,694)</u>	<u>\$2,155,845,482</u>

MASSACHUSETTS TURNPIKE AUTHORITY RETIREMENT PLAN

STATEMENT OF LEDGER ASSETS AND LIABILITIES

AS OF DECEMBER 31,			
	2012	2011	2010
Net Assets Available For Benefits:			
Cash	\$1,966,752	\$1,608,097	\$3,243,646
PRIT Cash Fund	44,718	41,486	73,847
PRIT Core Fund	181,072,897	176,219,113	193,224,268
Accounts Payable	(371,134)	(73,784)	(645,775)
Total	<u>\$182,713,232</u>	<u>\$177,794,911</u>	<u>\$195,895,986</u>
Fund Balances:			
Annuity Savings Fund	\$64,882,550	\$67,492,826	\$69,435,770
Annuity Reserve Fund	20,457,482	20,546,166	21,842,163
Pension Fund	0	0	0
Military Service Fund	555	554	553
Expense Fund	0	0	0
Pension Reserve Fund	<u>97,372,646</u>	<u>89,755,365</u>	<u>104,617,500</u>
Total	<u>\$182,713,232</u>	<u>\$177,794,911</u>	<u>\$195,895,986</u>

MASSACHUSETTS TURNPIKE AUTHORITY RETIREMENT PLAN

STATEMENT OF CHANGES IN FUND BALANCES

	Annuity Savings Fund	Annuity Reserve Fund	Pension Fund	Military Service Fund	Expense Fund	Pension Reserve Fund	Total All Funds
Beginning Balance (2010)	\$72,048,212	\$21,807,104	\$0	\$551	\$0	\$96,903,335	\$190,759,202
Receipts	216,145	647,245	336,446	2	868,148	22,114,336	24,182,321
Interfund Transfers	(2,182,812)	2,182,812	14,400,170	0	0	(14,400,170)	0
Disbursements	(645,775)	(2,794,997)	(14,736,616)	0	(868,148)	0	(19,045,536)
Ending Balance (2010)	69,435,770	21,842,163	0	553	0	104,617,500	195,895,986
Receipts	138,872	639,631	572,200	1	979,575	(808,791)	1,521,486
Interfund Transfers	(825,260)	825,260	14,053,343	0	0	(14,053,343)	0
Disbursements	(1,256,556)	(2,760,889)	(14,625,542)	0	(979,575)	0	(19,622,562)
Ending Balance (2011)	67,492,825	20,546,166	0	554	0	89,755,366	177,794,911
Receipts	67,493	602,995	465,394	1	949,729	21,832,729	23,918,340
Interfund Transfers	(2,176,721)	2,176,721	14,215,448	0	0	(14,215,448)	0
Disbursements	(501,048)	(2,868,400)	(14,680,842)	0	(949,729)	0	(19,000,019)
Ending Balance (2012)	\$64,882,549	\$20,457,482	\$0	\$555	\$0	\$97,372,647	\$182,713,232

MASSACHUSETTS TURNPIKE AUTHORITY RETIREMENT PLAN

STATEMENT OF RECEIPTS

	FOR THE PERIOD ENDING DECEMBER 31,		
	2012	2011	2010
Annuity Savings Fund:			
Investment Income Credited to Member Account	\$67,493	\$138,872	\$216,145
Sub Total	<u>67,493</u>	<u>138,872</u>	<u>216,145</u>
Annuity Reserve Fund:			
Investment Income Credited to the Annuity Reserve Fund	602,995	639,631	647,245
Sub Total	<u>602,995</u>	<u>639,631</u>	<u>647,245</u>
Pension Fund:			
3 (8) (c) Reimbursements from Other Systems	425,896	572,200	336,446
Settlement of Workers' Compensation Claims	39,498	0	0
Sub Total	<u>465,394</u>	<u>572,200</u>	<u>336,446</u>
Military Service Fund:			
Investment Income Credited to the Military Service Fund	<u>1</u>	<u>1</u>	<u>2</u>
Sub Total	<u>1</u>	<u>1</u>	<u>2</u>
Expense Fund:			
Investment Income Credited to the Expense Fund	<u>949,729</u>	<u>979,575</u>	<u>868,148</u>
Sub Total	<u>949,729</u>	<u>979,575</u>	<u>868,148</u>
Pension Reserve Fund:			
Miscellaneous Income	7,613	21,048	37,846
Excess Investment Income (Loss)	<u>21,825,117</u>	<u>(829,840)</u>	<u>22,076,490</u>
Sub Total	<u>21,832,729</u>	<u>(808,791)</u>	<u>22,114,336</u>
Total Receipts, Net	<u>\$23,918,340</u>	<u>\$1,521,486</u>	<u>\$24,182,321</u>

MASSACHUSETTS TURNPIKE AUTHORITY RETIREMENT PLAN

STATEMENT OF DISBURSEMENTS

FOR THE PERIOD ENDING DECEMBER 31,			
	2012	2011	2010
Annuity Savings Fund:			
Refunds to Members	\$501,048	\$771,226	\$645,775
Transfers to Other Systems	<u>0</u>	<u>485,330</u>	<u>0</u>
Sub Total	<u>501,048</u>	<u>1,256,556</u>	<u>645,775</u>
Annuity Reserve Fund:			
Annuities Paid	2,724,253	2,749,688	2,794,997
Option B Refunds	<u>144,147</u>	<u>11,201</u>	<u>0</u>
Sub Total	<u>2,868,400</u>	<u>2,760,889</u>	<u>2,794,997</u>
Pension Fund:			
Pensions Paid:			
Regular Pension Payments	12,378,311	12,330,811	12,379,734
Survivorship Payments	759,987	756,428	763,573
Ordinary Disability Payments	109,049	114,605	118,466
Accidental Disability Payments	1,146,187	1,168,449	1,173,082
Accidental Death Payments	125,293	130,309	134,839
Section 101 Benefits	51,417	47,239	43,303
3 (8) (c) Reimbursements to Other Systems	<u>110,600</u>	<u>77,702</u>	<u>123,618</u>
Sub Total	<u>14,680,842</u>	<u>14,625,542</u>	<u>14,736,616</u>
Expense Fund:			
Legal Expenses	0	10,007	0
Administrative Expenses	0	0	1,215
Management Fees	849,662	877,217	768,018
Custodial Fees	<u>100,066</u>	<u>92,350</u>	<u>98,915</u>
Sub Total	<u>949,729</u>	<u>979,575</u>	<u>868,148</u>
Total Disbursements	<u>\$19,000,019</u>	<u>\$19,622,562</u>	<u>\$19,045,536</u>

MASSACHUSETTS TURNPIKE AUTHORITY RETIREMENT PLAN INVESTMENT INCOME

FOR THE PERIOD ENDING DECEMBER 31,			
	2012	2011	2010
Investment Income Received From:			
Pooled or Mutual Funds	<u>\$5,698,852</u>	<u>\$5,676,282</u>	<u>\$5,355,504</u>
Total Investment Income	<u>5,698,852</u>	<u>5,676,282</u>	<u>5,355,504</u>
Plus:			
Realized Gains	4,628,906	5,816,498	4,943,924
Unrealized Gains	<u>24,279,562</u>	<u>18,370,822</u>	<u>36,194,058</u>
Sub Total	<u>28,908,468</u>	<u>24,187,321</u>	<u>41,137,982</u>
Less:			
Realized Loss	0	(102,978)	(163,974)
Unrealized Loss	<u>(11,161,986)</u>	<u>(28,832,386)</u>	<u>(22,521,482)</u>
Sub Total	<u>(11,161,986)</u>	<u>(28,935,364)</u>	<u>(22,685,456)</u>
Net Investment Income	<u>23,445,334</u>	<u>928,239</u>	<u>23,808,029</u>
Income Required:			
Annuity Savings Fund	67,493	138,872	216,145
Annuity Reserve Fund	602,995	639,631	647,245
Military Service Fund	1	1	2
Expense Fund	<u>949,729</u>	<u>979,575</u>	<u>868,148</u>
Total Income Required	<u>1,620,217</u>	<u>1,758,078</u>	<u>1,731,539</u>
Net Investment Income	<u>23,445,334</u>	<u>928,239</u>	<u>23,808,029</u>
Less: Total Income Required	<u>1,620,217</u>	<u>1,758,078</u>	<u>1,731,539</u>
Excess Income (Loss) To The Pension Reserve Fund	<u>\$21,825,117</u>	<u>(\$829,840)</u>	<u>\$22,076,490</u>

STATEMENTS OF LEDGER ASSETS AND LIABILITIES

As of JUNE 30, 2013			
	CONSOLIDATED	SERB	MA TURNPIKE
Net Assets Available For Benefits:			
Cash	\$50,632,536	\$48,785,963	\$1,846,572
PRIT Cash Fund	25,315,770	25,228,849	86,921
PRIT Core Fund	20,995,806,234	20,815,179,834	180,626,401
Prepaid Expenses	4,737	4,737	0
Accounts Receivable	25,953,157	25,953,157	0
Accounts Payable	(5,815,917)	(5,515,612)	(300,305)
Total	<u>\$21,091,896,517</u>	<u>\$20,909,636,928</u>	<u>\$182,259,589</u>
Fund Balances:			
Annuity Savings Fund	\$5,528,632,708	\$5,465,476,698	\$63,156,010
Annuity Reserve Fund	1,506,929,855	1,485,995,972	20,933,882
Pension Fund	0	0	0
Military Service Fund	48,157	47,602	555
Expense Fund	0	0	0
Pension Reserve Fund	14,056,285,797	13,958,116,655	98,169,142
Total	<u>\$21,091,896,517</u>	<u>\$20,909,636,928</u>	<u>\$182,259,589</u>

STATEMENTS OF CHANGES IN FUND BALANCES

	Annuity Savings Fund	Annuity Reserve Fund	Pension Fund	Military Service Fund	Expense Fund	Pension Reserve Fund	Total All Funds
SERB Beginning Balance (2013)	\$5,349,831,786	\$1,454,463,559	\$0	\$47,578	\$0	\$13,507,157,420	\$20,311,500,343
SERB Receipts	284,820,971	25,545,043	299,171,549	24	69,749,049	865,264,894	1,544,551,531
SERB Interfund Transfers	(142,698,970)	142,698,970	414,305,659	0	0	(414,305,659)	0
SERB Disbursements	(26,477,088)	(136,711,600)	(713,477,208)	0	(69,749,049)	0	(946,414,946)
SERB Ending Balance (JUNE 30, 2013)	5,465,476,698	1,485,995,972	0	47,602	0	13,958,116,655	20,909,636,928
MA TURNPIKE Beginning Balance (2013)	\$64,882,550	\$20,457,482	\$0	\$555	\$0	\$97,372,646	\$182,713,232
MA TURNPIKE Receipts	32,441	359,161	480,551	0	498,878	7,622,874	8,993,905
MA TURNPIKE Interfund Transfers	(1,458,676)	1,458,676	6,826,378	0	0	(6,826,378)	0
MA TURNPIKE Disbursements	(300,305)	(1,341,436)	(7,306,930)	0	(498,878)	0	(9,447,549)
MA TURNPIKE Ending Balance (JUNE 30, 2013)	63,156,010	20,933,882	0	555	0	98,169,142	182,259,589
CONSOLIDATED Beginning Balance (2013)	\$5,414,714,336	\$1,474,921,040	\$0	\$48,133	\$0	\$13,604,530,066	\$20,494,213,575
CONSOLIDATED Receipts	284,853,413	25,904,204	299,652,101	24	70,247,927	872,887,768	1,553,545,436
CONSOLIDATED Interfund Transfers	(144,157,647)	144,157,647	421,132,037	0	0	(421,132,037)	0
CONSOLIDATED Disbursements	(26,777,394)	(138,053,036)	(720,784,138)	0	(70,247,927)	0	(955,862,495)
CONSOLIDATED Ending Balance (JUNE 30, 2013)	\$5,528,632,708	\$1,506,929,854	\$0	\$48,157	\$0	\$14,056,285,797	\$21,091,896,516

STATEMENTS OF RECEIPTS

JANUARY 1, 2013 TO JUNE 30, 2013			
	CONSOLIDATED	SERB	MA TURNPIKE
Annuity Savings Fund:			
Members Deductions	\$270,280,920	\$270,280,920	\$0
Transfers from Other Systems	5,035,019	5,035,019	0
Member Make Up Payments and Re-deposits	2,323,758	2,323,758	0
Member Payments from Rollovers	4,506,359	4,506,359	0
Investment Income Credited to Member Account	<u>2,707,357</u>	<u>2,674,916</u>	<u>32,441</u>
Sub Total	<u>284,853,413</u>	<u>284,820,971</u>	<u>32,441</u>
Annuity Reserve Fund:			
Recovery of Annuity from Reinstatement	2,631	2,631	0
Investment Income Credited to the Annuity Reserve Fund	<u>25,901,573</u>	<u>25,542,412</u>	<u>359,161</u>
Sub Total	<u>25,904,204</u>	<u>25,545,043</u>	<u>359,161</u>
Pension Fund:			
3 (8) (c) Reimbursements from Other Systems	26,662,586	26,218,785	443,801
Pension Fund Appropriation	272,726,498	272,726,498	0
Settlement of Workers' Compensation Claims	185,113	148,363	36,750
Recovery of Pension from Reinstatement	9,312	9,312	0
Recovery of 91A Overearnings	<u>68,592</u>	<u>68,592</u>	<u>0</u>
Sub Total	<u>299,652,101</u>	<u>299,171,549</u>	<u>480,551</u>
Military Service Fund:			
Investment Income Credited to the Military Service Fund	<u>24</u>	<u>24</u>	<u>0</u>
Sub Total	<u>24</u>	<u>24</u>	<u>0</u>
Expense Fund:			
Investment Income Credited to the Expense Fund	<u>70,247,927</u>	<u>69,749,049</u>	<u>498,878</u>
Sub Total	<u>70,247,927</u>	<u>69,749,049</u>	<u>498,878</u>
Pension Reserve Fund:			
Federal Grant Reimbursement	2,815,494	2,815,494	0
Miscellaneous Income	623,589	623,210	379
Excess Investment Income	<u>869,448,685</u>	<u>861,826,190</u>	<u>7,622,495</u>
Sub Total	<u>872,887,768</u>	<u>865,264,894</u>	<u>7,622,874</u>
Total Receipts, Net	<u>\$1,553,545,436</u>	<u>\$1,544,551,531</u>	<u>\$8,993,905</u>

STATEMENTS OF DISBURSEMENTS

JANUARY 1, 2013 TO JUNE 30, 2013			
	CONSOLIDATED	SERB	MA TURNPIKE
Annuity Savings Fund:			
Refunds to Members	\$25,379,363	\$25,079,058	\$300,305
Transfers to Other Systems	<u>1,398,030</u>	<u>1,398,030</u>	<u>0</u>
Sub Total	<u>26,777,394</u>	<u>26,477,088</u>	<u>300,305</u>
Annuity Reserve Fund:			
Annuities Paid	136,476,101	135,134,665	1,341,436
Option B Refunds	<u>1,576,935</u>	<u>1,576,935</u>	<u>0</u>
Sub Total	<u>138,053,036</u>	<u>136,711,600</u>	<u>1,341,436</u>
Pension Fund:			
Pensions Paid:			
Regular Pension Payments	571,174,770	565,039,068	6,135,703
Survivorship Payments	34,959,227	34,585,032	374,195
Ordinary Disability Payments	4,858,653	4,806,647	52,006
Accidental Disability Payments	52,434,652	51,873,405	561,247
Accidental Death Payments	5,434,675	5,376,503	58,171
Section 101 Benefits	2,536,920	2,509,765	27,155
3 (8) (c) Reimbursements to Other Systems	5,776,896	5,678,442	98,454
State Reimbursable COLA's Paid	17,389,560	17,389,560	0
3 (8) (c) Reimbursements to General Fund	<u>26,218,785</u>	<u>26,218,785</u>	<u>0</u>
Sub Total	<u>720,784,138</u>	<u>713,477,208</u>	<u>7,306,930</u>
Expense Fund:			
Salaries	2,201,066	2,201,066	0
Legal Expenses	22,204	22,204	0
Travel Expenses	8,394	8,394	0
Administrative Expenses	201,433	201,433	0
Professional Services	1,644,063	1,644,063	0
Furniture and Equipment	105,592	105,592	0
Management Fees	51,974,271	51,523,546	450,725
Custodial Fees	5,553,651	5,505,499	48,153
Rent Expenses	189,974	189,974	0
Service Contracts	320,387	320,387	0
Higher Ed Optional Retirement Program	6,140,417	6,140,417	0
To Fund PERAC Operations	<u>1,886,475</u>	<u>1,886,475</u>	<u>0</u>
Sub Total	<u>70,247,927</u>	<u>69,749,049</u>	<u>498,878</u>
Total Disbursements	<u>\$955,862,495</u>	<u>\$946,414,946</u>	<u>\$9,447,549</u>

INVESTMENT INCOME

JANUARY 1, 2013 TO JUNE 30, 2013			
	CONSOLIDATED	SERB	MA TURNPIKE
Investment Income Received From:			
Pooled or Mutual Funds	\$341,027,365	\$338,066,065	\$2,961,300
Total Investment Income	<u>341,027,365</u>	<u>338,066,065</u>	<u>2,961,300</u>
Plus:			
Realized Gains	458,360,097	454,381,185	3,978,912
Unrealized Gains	905,185,884	897,261,787	7,924,097
Sub Total	<u>1,363,545,981</u>	<u>1,351,642,972</u>	<u>11,903,009</u>
Less:			
Unrealized Loss	(1,200,747,072)	(729,916,446)	(6,351,335)
Sub Total	<u>(736,267,781)</u>	<u>(729,916,446)</u>	<u>(6,351,335)</u>
Net Investment Income	<u>968,305,566</u>	<u>959,792,591</u>	<u>8,512,975</u>
Income Required:			
Annuity Savings Fund	2,707,357	2,674,916	32,441
Annuity Reserve Fund	25,901,573	25,542,412	359,161
Military Service Fund	24	24	0
Expense Fund	70,247,927	69,749,049	498,878
Total Income Required	<u>98,856,881</u>	<u>97,966,401</u>	<u>890,480</u>
Net Investment Income	<u>968,305,566</u>	<u>959,792,591</u>	<u>8,512,975</u>
Less: Total Income Required	<u>(98,856,881)</u>	<u>(97,966,401)</u>	<u>(890,480)</u>
Excess Income (Loss) To The Pension Reserve Fund	<u>\$869,448,685</u>	<u>\$861,826,190</u>	<u>\$7,622,495</u>

SCHEDULE OF ALLOCATION OF INVESTMENTS OWNED STATE EMPLOYEES' RETIREMENT SYSTEM

(percentages by category)

AS OF DECEMBER 31, 2012		
	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS
Cash	\$87,035,450	0.4%
PRIT Cash Fund	13,169,461	0.1%
PRIT Core Fund	<u>20,210,716,727</u>	<u>99.5%</u>
Grand Total	<u>\$20,310,921,638</u>	<u>100.0%</u>

For the year ending December 31, 2012, the rate of return for the investments of the State Employees' Retirement System was 14.00%. For the five-year period ending December 31, 2012, the rate of return for the investments of the State Employees' Retirement System averaged 1.52%. For the 28-year period ending December 31, 2012, since PERAC began evaluating the returns of the retirement systems, the rate of return on the investments of the State Employees' Retirement System was 9.54%.

The composite rate of return for all retirement systems for the year ending December 31, 2012 was 13.84%. For the five-year period ending December 31, 2012, the composite rate of return for the investments of all retirement systems averaged 1.83%. For the 28-year period ending December 31, 2012, since PERAC began evaluating the returns of the retirement systems, the composite rate of return on the investments of all retirement systems averaged 9.27%.

SUPPLEMENTARY INVESTMENT REGULATIONS

By statute, the State Employees' Retirement System and the Massachusetts Turnpike Authority Retirement Systems are 100% invested in the Pension Reserves Investment Trust, and therefore, have not submitted any supplemental investment regulations to PERAC.

NOTES TO FINANCIAL STATEMENTS

NOTE I – SUMMARY OF PLAN PROVISIONS

The plan is a contributory defined benefit plan covering all State Employees' and Massachusetts Turnpike Authority member unit employees deemed eligible by the retirement board.

ADMINISTRATION

There are 105 contributory retirement systems for public employees in Massachusetts. Each system is governed by a retirement board and all boards, although operating independently, are governed by Chapter 32 of the Massachusetts General Laws. This law in general provides uniform benefits, uniform contribution requirements and a uniform accounting and funds structure for all systems.

PARTICIPATION

Participation is mandatory for all full-time employees. Eligibility with respect to part-time, provisional, temporary, seasonal or intermittent employment is governed by regulations promulgated by the retirement board, and approved by PERAC. Membership is optional for certain elected officials.

There are 4 classes of membership in the retirement system, as follows:

Group 1:

General employees, including clerical, administrative, technical and all other employees not otherwise classified.

Group 2:

Certain specified hazardous duty positions.

Group 3:

Specified hazardous duty positions made up exclusively of State Police officers and inspectors.

Group 4:

Police officers, firefighters, and other specified hazardous positions.

NOTES TO FINANCIAL STATEMENTS (Continued)

MEMBER CONTRIBUTIONS

Member contributions vary depending on the most recent date of membership:

Prior to 1975:	5% of regular compensation
1975 - 1983:	7% of regular compensation
1984 to 6/30/96:	8% of regular compensation
7/1/96 to present:	9% of regular compensation
1979 to present:	an additional 2% of regular compensation in excess of \$30,000.

In addition, members of Group 1 who join the system on or after April 2, 2012 will have their withholding rate reduced to 6 % after achieving 30 years of creditable service.

RATE OF INTEREST

Interest on regular deductions made after January 1, 1984 is a rate established by PERAC in consultation with the Commissioner of Banks. The rate is obtained from the average rates paid on individual savings accounts by a representative sample of at least 10 financial institutions.

RETIREMENT AGE

The mandatory retirement age for some Group 2 and Group 4 employees is age 65. Most Group 2 and Group 4 members may remain in service after reaching age 65. Group 4 members who are employed in certain public safety positions are required to retire at age 65. There is no mandatory retirement age for employees in Group 1.

SUPERANNUATION RETIREMENT

A person who became a member before April 2, 2012 is eligible for a superannuation retirement allowance (service retirement) upon meeting the following conditions:

- completion of 20 years of service, or
- attainment of age 55 if hired prior to 1978, or if classified in Group 4, or
- attainment of age 55 with 10 years of service, if hired after 1978, and if classified in Group 1 or 2

A person who became a member on or after April 2, 2012 is eligible for a superannuation retirement allowance (service retirement) upon meeting the following conditions:

- attainment of age 60 with 10 years of service if classified in Group 1, or
- attainment of age 55 with 10 years of service if classified in Group 2, or
- attainment of age 55 if classified in Group 4.

NOTES TO FINANCIAL STATEMENTS (Continued)

AMOUNT OF BENEFIT

A member's annual allowance is determined by multiplying average salary by a benefit rate related to the member's age and job classification at retirement, and the resulting product by his creditable service. The amount determined by the benefit formula cannot exceed 80% of the member's highest three year (or five year as discussed below) average salary. For veterans as defined in G.L. c. 32, s. 1, there is an additional benefit of \$15 per year for each year of creditable service, up to a maximum of \$300.

For employees who become members after January 1, 2011, regular compensation is limited to 64% of the federal limit found in 26 U.S.C. 401(a)(17). In addition, regular compensation will be limited to prohibit "spiking" of a member's salary to increase the retirement benefit.

- For persons who became members prior to April 2, 2012, Average Salary is the average annual rate of regular compensation received during the 3 consecutive years that produce the highest average, or, if greater, during the last 3 years (whether or not consecutive) preceding retirement.
- For persons who became members on or after April 2, 2012, Average Salary is the average annual rate of regular compensation received during the 5 consecutive years that produce the highest average, or, if greater, during the last 5 years (whether or not consecutive) preceding retirement.
- The Benefit Rate varies with the member's retirement age. For persons who became members prior to April 2, 2012 the highest rate of 2.5% applies to Group 1 employees who retire at or after age 65, Group 2 employees who retire at or after age 60, and to Group 4 employees who retire at or after age 55. A .1% reduction is applied for each year of age under the maximum age for the member's group. For Group 2 employees who terminate from service under age 55, the benefit rate for a Group 1 employee shall be used.
- For persons who became members on or after April 2, 2012 and retire with less than 30 years of creditable service, the highest rate of 2.5% applies to Group 1 employees who retire at or after age 67, Group 2 employees who retire at or after age 62, and to Group 4 employees who retire at or after age 57. A .15% reduction is applied for each year of age under the maximum age for the member's group.
- For persons who became members on or after April 2, 2012 and retire with more than 30 years of creditable service, the highest rate of 2.5% applies to Group 1 employees who retire at or after age 67, Group 2 employees who retire at or after age 62, and to Group 4 employees who retire at or after age 55. A .125% reduction is applied for each year of age under the maximum age for the member's group.

DEFERRED VESTED BENEFIT

A participant who has attained the requisite years of creditable service can elect to defer his or her retirement until a later date. Certain public safety employees cannot defer beyond age 65. All participants must begin to receive a retirement allowance or withdraw their accumulated deductions no later than April 15 of the calendar year following the year they reach age 70½.

NOTES TO FINANCIAL STATEMENTS (Continued)

WITHDRAWAL OF CONTRIBUTIONS

Member contributions may be withdrawn upon termination of employment. The interest rate for employees who first become members on or after January 1, 1984 who voluntarily withdraw their contributions with less than 10 years of service will be 3%. Interest payable on all other withdrawals will be set at regular interest.

DISABILITY RETIREMENT

The Massachusetts Retirement Plan provides 2 types of disability retirement benefits:

ORDINARY DISABILITY

Eligibility: Non-veterans who become totally and permanently disabled by reason of a non-job related condition with at least 10 years of creditable service (or 15 years creditable service in systems in which the local option contained in G.L. c. 32, s.6(1) has not been adopted).

Veterans with ten years of creditable service who become totally and permanently disabled by reason of a non-job related condition prior to reaching “maximum age”. “Maximum age” applies only to those employees classified in Group 4 who are subject to mandatory retirement.

Retirement Allowance: For persons who became members prior to April 2, 2012, the benefit is equal to the accrued superannuation retirement benefit as if the member was age 55. If the member is a veteran, the benefit is 50% of the member’s final rate of salary during the preceding 12 months, plus an annuity based upon accumulated member contributions plus credited interest. If the member is over age 55, he or she will receive not less than the superannuation allowance to which he or she is entitled.

For persons in Group 1 who became members on or after April 2, 2012, the benefit is equal to the accrued superannuation retirement benefit as if the member was age 60. If the member is a veteran, the benefit is 50% of the member’s final rate of salary during the preceding 12 months, plus an annuity based upon accumulated member contributions plus credited interest. If the member is over age 60, he or she will receive not less than the superannuation allowance to which he or she would have been entitled had they retired for superannuation.

For persons in Group 2 and Group 4 who became members on or after April 2, 2012, the benefit is equal to the accrued superannuation retirement benefit as if the member was age 55. If the member is a veteran, the benefit is 50% of the member’s final rate of salary during the preceding 12 months, plus an annuity based upon accumulated member contributions plus credited interest. If the member is over age 55, he or she will receive not less than the superannuation allowance to which he or she would have been entitled had they retired for superannuation.

NOTES TO FINANCIAL STATEMENTS (Continued)

ACCIDENTAL DISABILITY

Eligibility: Applies to members who become permanently and totally unable to perform the essential duties of the position as a result of a personal injury sustained or hazard undergone while in the performance of duties. There are no minimum age or service requirements.

Retirement Allowance: 72% of salary plus an annuity based on accumulated member contributions, with interest. This amount is not to exceed 100% of pay. For those who became members in service after January 1, 1988 or who have not been members in service continually since that date, the amount is limited to 75% of pay. There is an additional pension of \$774.36 per year (or \$312.00 per year in systems in which the local option contained in G.L. c. 32, s. 7(2)(a)(iii) has not been adopted), per child who is under 18 at the time of the member's retirement, with no age limitation if the child is mentally or physically incapacitated from earning. The additional pension may continue up to age 22 for any child who is a full time student at an accredited educational institution. For systems that have adopted Chapter 157 of the Acts of 2005, veterans as defined in G.L. c. 32, s. 1 receive an additional benefit of \$15 per year for each year of creditable service, up to a maximum of \$300.

ACCIDENTAL DEATH

Eligibility: Applies to members who die as a result of a work-related injury or if the member was retired for accidental disability and the death was the natural and proximate result of the injury or hazard undergone on account of which such member was retired.

Allowance: An immediate payment to a named beneficiary equal to the accumulated deductions at the time of death, plus a pension equal to 72% of current salary and payable to the surviving spouse, dependent children or the dependent parent, plus a supplement of \$774.36 per year, per child (or \$312.00 per year in systems in which the local option contained in G.L. c. 32, s. 9(2)(d)(ii) has not been adopted), payable to the spouse or legal guardian until all dependent children reach age 18 or 22 if a full time student, unless mentally or physically incapacitated.

The surviving spouse of a member of a police or fire department or any corrections officer who, under specific and limited circumstances detailed in the statute, suffers an accident and is killed or sustains injuries while in the performance of his duties that results in his death, may receive a pension equal to the maximum salary for the position held by the member upon his death. In addition, an eligible family member may receive a one time payment of \$100,000.00 from the State Retirement Board. This lump sum payment is also available to the family of a public prosecutor in certain, limited circumstances.

NOTES TO FINANCIAL STATEMENTS (Continued)

DEATH AFTER ACCIDENTAL DISABILITY RETIREMENT

Effective November 7, 1996, Accidental Disability retirees were allowed to select Option C at retirement and provide a benefit for an eligible survivor. For Accidental Disability retirees prior to November 7, 1996, who could not select Option C, if the member's death is from a cause unrelated to the condition for which the member received accidental disability benefits, a surviving spouse will receive an annual allowance of \$6,000. For Systems that accept the provisions of Section 28 of Chapter 131 of the Acts of 2010, the amount of this benefit is \$9,000. For Systems that accept the provisions of Section 63 of Chapter 139 of the Acts of 2012, the amount of this benefit is \$12,000.

DEATH IN ACTIVE SERVICE

Allowance: An immediate allowance equal to that which would have been payable had the member retired and selected Option C on the day before his or her death. For a member who became a member prior to April 2, 2012 whose death occurred prior to the member's superannuation retirement age, the age 55 benefit rate is used. For a member classified in Group 1 who became a member on or after April 2, 2012 whose death occurred prior to the member's superannuation retirement age, the age 60 benefit rate is used. If the member died after age 60, the actual age is used. For a member classified in Group 2 or Group 4, whose death occurred prior to the member's minimum superannuation retirement age, the benefit shall be calculated using an age 55 age factor. The minimum annual allowance payable to the surviving spouse of a member in service who dies with at least two years of creditable service is \$3,000 unless the retirement system has accepted the local option increasing this minimum annual allowance to \$6,000, provided that the member and the spouse were married for at least one year and living together on the member's date of death.

The surviving spouse of such a member in service receives an additional allowance equal to the sum of \$1,440 per year for the first child and \$1,080 per year for each additional child until all dependent children reach age 18 or 22 if a full time student, unless mentally or physically incapacitated.

COST OF LIVING

If a system has accepted Chapter 17 of the Acts of 1997, and the Retirement Board votes to pay a cost of living increase (COLA) for that year, the percentage is determined based on the increase in the Consumer Price Index used for indexing Social Security benefits, but cannot exceed 3.0%. Section 51 of Chapter 127 of the Acts of 1999, if accepted, allows boards to grant COLA increases greater than that determined by CPI but not to exceed 3.0%. Only a certain portion of a retiree's total allowance is subject to a COLA. The total COLA for periods from 1981 through 1996 is paid for by the Commonwealth of Massachusetts.

Under the provisions of Chapter 32, Section 103(j) inserted by Section 19 of Chapter 188 of the Acts of 2010, systems may increase the maximum base on which the COLA is calculated in multiples of \$1,000. For many years the COLA base was calculated based upon the first \$12,000 of a retiree's allowance. Now the maximum base upon which the COLA is calculated varies from system to system. . Each increase in the base must be accepted by a majority vote of the Retirement Board and approved by the legislative body.

NOTES TO FINANCIAL STATEMENTS (Continued)

METHODS OF PAYMENT

A member may elect to receive his or her retirement allowance in one of 3 forms of payment.

Option A: Total annual allowance, payable in monthly installments, commencing at retirement and terminating at the member's death.

Option B: A reduced annual allowance, payable in monthly installments, commencing at retirement and terminating at the death of the member, provided, however, that if the total amount of the annuity portion received by the member is less than the amount of his or her accumulated deductions, including interest, the difference or balance of his accumulated deductions will be paid in a lump sum to the retiree's beneficiary or beneficiaries of choice.

Option C: A reduced annual allowance, payable in monthly installments, commencing at retirement. At the death of the retired employee, 2/3 of the allowance is payable to the member's designated beneficiary (who may be the spouse, or former spouse who is has not remarried, child, parent, sister, or brother of the employee) for the life of the beneficiary. For members who retired on or after January 12, 1988, if the beneficiary pre-deceases the retiree, the benefit payable increases (or "pops up" to Option A) based on the factor used to determine the Option C benefit at retirement. For members who retired prior to January 12, 1988, if the System has accepted Section 288 of Chapter 194 of the Acts of 1998 and the beneficiary pre-deceases the retiree, the benefit payable "pops up" to Option A in the same fashion. The Option C became available to accidental disability retirees on November 7, 1996.

ALLOCATION OF PENSION COSTS

If a member's total creditable service was partly earned by employment in more than one retirement system, the cost of the "pension portion" is allocated between the different systems pro rata based on the member's service within each retirement system. If a member received regular compensation concurrently from two or more systems on or after January 1, 2010, and was not vested in both systems as of January 1, 2010, such a pro-ration will not be undertaken. This is because such a person will receive a separate retirement allowance from each system.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

The accounting records of the System were previously maintained on a calendar year basis in accordance with the standards and procedures established by the Public Employee Retirement Administration Commission. Special legislation was approved to adopt a fiscal year (June 30) reporting period effective for the next fiscal year.

Cash accounts are considered to be funds on deposit with banks and are available upon demand. They also include funds allocated by the legislature and included in the MARS account for the exclusive use by the Treasury Units.

Investments are reported at their fair value. Mutual, commingled and pooled funds are valued based on the net asset or unit value at year end. Purchases and sales of securities are reflected on the date the trade is initiated. Realized gain or loss is largely based on the difference between the cost or the value at the prior year end and the funds realized upon liquidation. Dividend income is generally recorded when received. Interest income is recorded as earned on an accrual basis. Appreciation or depreciation in the value of investments consists of the unrealized gains and losses reported as the difference between the previous period and the current value.

The system makes estimates and assumptions that affect the reported values of assets and liabilities and the reported amounts added and deducted during the reporting periods. The actual funds realized upon liquidation may differ from these estimates.

The provisions of Massachusetts General Laws Chapter 32, § 23 (2) generally govern the investment practices of the system. The Board relies upon the investment strategy of the PRIM Board to maintain their progress toward full funding of the system. That strategy seeks to balance the exposure to common deposit and investment risks related to custody, credit concentrations, interest rate and foreign currency fluctuations.

A 3(8)(c) reimbursement is the pension benefit payment received from other Massachusetts public retirement systems for the portion of creditable service realized by retirees formerly contributing to another retirement system. These funds are swept by Treasury and posted to the Commonwealth's General fund.

Operating expenses include the ordinary and necessary cost of investment and professional services and the other miscellaneous administrative expenses of the system.

NOTES TO FINANCIAL STATEMENTS (Continued)

The Annuity Savings Fund is the fund in which members' contributions are deposited. Voluntary contributions, re-deposits, and transfers to and from other systems, are also accounted for in this fund. Members' contributions to the fund earn interest at a rate determined by PERAC. Interest for some members who withdraw with less than ten years of service is transferred to the Pension Reserve Fund. Upon retirement, members' contributions and interest are transferred to the Annuity Reserve Fund. Dormant account balances must be transferred to the Pension Reserve Fund after a period of ten years of inactivity.

The Annuity Reserve Fund is the fund to which a member's account is transferred upon retirement from the Annuity Savings Fund and Special Military Service Credit Fund. The annuity portion of the retirement allowance is paid from this fund. Interest is credited monthly to this fund at the rate of 3% annually on the previous month's balance.

The Special Military Service Credit Fund contains contributions and interest for members while on a military leave for service in the Armed Forces who will receive creditable service for the period of that leave.

The Expense Fund contains amounts transferred from investment income for the purposes of administering the retirement system.

The Pension Fund contains the amounts appropriated by the governmental units as established by PERAC to pay the pension portion of each retirement allowance.

The Pension Reserve Fund contains amounts appropriated by the governmental units for the purposes of funding future retirement benefits. Any profit or loss realized on the sale or maturity of any investment or on the unrealized gain of a market valued investment as of the valuation date is credited to the Pension Reserve Fund. Additionally, any investment income in excess of the amount required to credit interest to the Annuity Savings Fund, Annuity Reserve Fund, and Special Military Service Credit Fund is credited to this Reserve account.

The Investment Income Account is credited with all income derived from interest and dividends of invested funds. At year-end the interest credited to the Annuity Savings Fund, Annuity Reserve Fund, Expense Fund, and Special Military Service Credit Fund is distributed from this account and the remaining balance is transferred to the Pension Reserve Fund.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 – STATE RETIREMENT BOARD SUPPLEMENTAL REGULATIONS

TITLE 94I: STATE BOARD OF RETIREMENT CHAPTER 2.00: ADMINISTRATIVE REGULATIONS:

- April 5, 2013: 94I CMR 2.10: Procedures Related to G.L. c. 32, §15, Dereliction of Duty by Members.

I. Introduction

Purpose. The purpose of 94I CMR 2.10 is to clarify the procedures used to implement the provisions of G.L. c.32, §15. Specifically, this regulation defines the standards and procedures under which the State Board of Retirement will act on issues that arise under the provisions of G.L. c.32, §15, as they apply to the retirement rights and benefits of members of the Massachusetts State Employees' Retirement System ("MSERS"), including members of the former Massachusetts Turnpike Employees' Retirement System, members of the retirement system established for the judiciary under G. L. c.32, §§65A-65J, and any other public, employees whose retirement benefits fall under the administration of the MSERS.

Authority of the State Board of Retirement. The State Board of Retirement ("SBR") is established by G.L. c.10, §18 to administer the state employees' contributory retirement system established by G.L. c.32, §1 et seq. Individually and collectively, these statutes impose a fiduciary duty on the State Board of Retirement, and on each member of the Board, to serve the public interest by ensuring that the contributory retirement system is prudently managed to protect and preserve its integrity and its viability for the long term, and that it is fairly and equitably administered to provide benefits to the members and the beneficiaries of the MSERS consistent with the provisions of G. L. c.32. G.L. c.32, §15 grants public contributory retirement systems the authority and imposes on them the responsibility to determine whether the rights and benefits of a member or beneficiary within that system may be affected by actions of the member, and, pursuant to G.L. c.32, §15(2), to initiate proceedings under this section. The SBR may consider the application of the law and these regulations to the retirement rights and benefits of any member of the MSERS or beneficiary of such a member, and take appropriate action on those rights and benefits, including determining that the member's actions require forfeiture of all retirement benefits. Nothing in this regulation shall be construed to limit or negate the authority otherwise provided by law to the SBR to administer the MSERS.

2. Definitions

In general, the terms-used in this regulation shall have the meanings set forth in G.L. c.32, §§ 1-3. For the purposes of this regulation:

(a) "Accumulated total deductions" shall have the meaning set forth in G.L. c.32, §1, provided that one of the systems to which the deductions have been credited is MSERS.

(b) "Board" shall mean the members of the Board of the State Board of Retirement established under G.L. c.10, §18, and, if the context so requires, the staff of the State Board of Retirement.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

(c) "Final conviction" shall mean the entry of a judgment of a judge or jury that a person is guilty of a crime as charged and the imposition of sentence for that crime.

(d) "Member" shall have the meaning set forth in G.L. c.32, §1, provided that the employee or retiree is a member of the MSERS, as defined in G.L. c.32, §20(1), and including both members in service and members inactive, as defined herein. Unless the context requires otherwise, it shall also mean an employee or retiree who is or has been a member of MSERS and another contributory retirement system established under G.L. c. 32, including the retirement system established under G.L. c.32, §§65A-65J.

(e) "Member in service" and "member inactive" shall have the same meanings as set forth in G.L. c.32, §3, but only as applied to members of the MSERS, as defined in G.L. c.32, §20(1) and 941 CMR 2.10 (2)(d).

(f) "Membership service" shall mean service as an employee of the Commonwealth rendered since becoming a member of the MSERS or another contributory retirement system organized pursuant to G.L. c.32, including the retirement system established under G.L. c.32 §§65A-65J.

(g) "Retirement benefits" shall mean the "retirement allowance" as defined in G.L. c.32, §1, together with such other retirement benefits made available by the Commonwealth to members of the MSERS, and to their survivors and beneficiaries.

3. Application

Administrative action under these regulations may apply to active, inactive, retired, and deceased members of the MSERS, including members of the former Massachusetts Turnpike Employees' Retirement System, members of the judiciary, and any other public employees whose retirement benefits fall under the administration of the MSERS; and to their representatives, survivors and beneficiaries. It may also apply to former members of MSERS who are members of another contributory retirement system organized under G.L. c.32, and to their representatives, survivors and beneficiaries.

4. Initiation of Administrative Review

(a) The Board or its staff may initiate an administrative review at any time, and shall initiate one upon notice that charges which would trigger the provisions of G.L. c.32, §15 have been brought against a member; upon notice that a member has been suspended from employment pursuant to G.L. c.30, §59; upon notice of a conviction or other disposition of a criminal matter against a member, or if given reason to believe reported compensation is inaccurate.

(b) The Board or its staff shall make a good faith effort to determine the validity of any report of charges, violations or convictions related to the member, and to ascertain the applicability of the requirements of G.L. c.32, §15. The Board or its staff shall make reasonable efforts to obtain all

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

additional relevant information, which may include: certified copies of court records, pleadings and documents related to the member; correspondence or documents from the applicable prosecuting agency; employment records; and any other relevant records and documents.

5. Administrative Action by the State Board of Retirement

a) If the Board or its staff determines that it has credible information that a member has been or is being charged with a violation that would trigger the provisions, of G.L. c.32, §15; or upon notice that a member has been suspended from employment pursuant to G.L. c.30, §59; or that a member has been convicted of such a violation, it will notify the member of this determination. It will advise them that if they file a request to withdraw their accumulated total deductions on account with the MSERS or transfer their accumulated total deductions to another contributory retirement system or elsewhere, the Board may determine that any action on such a request may be stayed pending disposition of the criminal charges filed. It will advise the member that the Board will take appropriate actions to enforce those provisions and protect the assets and resources of the MSERS, including initiating temporary administrative action prior to the final disposition of any precipitating criminal matter or prior to a final conviction.

b) Upon a determination that it will initiate any action pursuant to paragraphs (c) through (f), below, the Board or its staff will notify the member of its determination, and of the Board meeting at which the recommendation to proceed to take such action will be presented to the Board. Upon a decision of the Board that it should proceed to take any action pursuant to paragraphs (c) through (f), it will issue a Notice of Action, as set forth in 941 CMR 2.10 (6), below.

c) If a member has submitted an application for retirement benefits, or a request to withdraw their accumulated total deductions on account with the MSERS, or transfer their accumulated total deductions to another contributory retirement system or elsewhere, the Board may stay action on the application or request pending disposition of charges filed, or pending verification of compensation the member has received.

d) If a member, survivor, or beneficiary is already receiving a retirement benefit, and the Board determines that the benefits paid have exceeded or are, within six months, likely to exceed the amount of their total accumulated deductions, or that the charges are such that, pursuant to G. L. c.32, §15(1), §15(3), or § 15(3A), the member will not be entitled to the return of the balance of his accumulated total deductions, the SBR may initiate action to determine whether it should withhold further issuance of the applicable retirement allowance pending the disposition of those charges.

e) Upon the final conviction of a member of an offense that would trigger the provisions of G.L. c.32, §15, the Board may determine that the member's retirement benefits are forfeited, and may initiate action to implement the provisions of G.L. c.32, §15. If the member has already withdrawn any accumulated retirement deductions from his or her retirement account or is receiving a retirement benefit, the SBR may initiate appropriate action to terminate benefits that the member is

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

receiving, recover the paid contributions, accrued interest, or both from the member, his survivors or beneficiaries, and, pursuant to G.L. c.32, §15(6), to recover all benefits received after the date of the offense of which the member was convicted.

f) If a member, survivor, or beneficiary is already receiving a retirement benefit, and the Board determines that the retirement allowance was calculated based on a salary that was intentionally concealed from or intentionally misreported to the commonwealth, or any political subdivision, district or authority of the commonwealth, it shall, consistent with G.L. c.32, § 15(7), initiate action to reduce the retirement allowance to the level that reflects the regular compensation actually reported to that entity or the amount reported to the SBR, whichever is lower, and may, further, withhold that benefit until any overpayment has been recovered.

6. Notice

(a) Upon a determination that the SBR will take or initiate any action pursuant to 94I CMR 2.10 (5)(a)-(f) above, and in accordance with 80I CMR 1.01(6)(a), the SBR will issue a Notice of Action to notify the member, survivor, or beneficiary of the action it is taking or intends to take, the effective date of the action, the reason for the action, the material facts on which the SBR relies, the statutes and regulations which authorize it to act, and how to contact a staff person at the SBR who can provide additional information about the matter. If applicable, it will notify the member that, pending final disposition of any criminal matter, it will not process any application for retirement benefits or request to withdraw accumulated deductions. The Notice of Action will be issued by U.S. Mail, certified and postage prepaid to the last address the member or beneficiary has provided the SBR. A certificate of service shall be filed with the SBR.

b) Upon a vote of the Board that the SBR should take any action pursuant to 94I CMR 2.10 (5) (c)-(f) above, the SBR will issue a Notice of Hearing, which shall include the date, time, and place of the hearing; identify the rules under which the hearing will be held; and notify the member, survivor or beneficiary of the right to have an authorized representative present. The Notice of Hearing will be issued by U.S. Mail, certified and postage prepaid, and a certificate of service shall be filed with the SBR.

c) All papers filed thereafter may be served by regular U.S. Mail, postage prepaid, with copies to all parties and to the SBR; or, if allowed by the Hearing Officer, by electronic service to all parties and to the SBR.

d) A copy of the Notice of Action and of the Notice of Hearing may be provided to the member's employing agency.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

7. Conduct of Hearings

Except as otherwise provided herein, administrative hearings under these regulations shall be conducted pursuant to the Formal Rules of Adjudicatory Practice and Procedure, 801 CMR 1.01.

The Board shall designate a Hearing Officer to conduct hearings arising under these regulations. The Hearing Officer has the authority to enter procedural orders consistent with 801 CMR 1.01 and with this regulation, and to limit the issues for consideration.

8. Representation

An individual may appear on his or her own behalf, or may be represented or advised by their own attorney or another duly authorized representative. Attorneys or individuals acting on behalf of the member must file a written notice of appearance that includes their name, address, telephone number, e-mail address, and, if available, facsimile transmission number. The filing of any pleading, motion, or other paper by an attorney is deemed to constitute the filing of an appearance unless the paper states otherwise.

9. Submission Without a Hearing

Any party may elect to waive a hearing and to submit his case upon written submissions, and shall so notify the Hearing Officer and the other party prior to the scheduled time for the hearing. Submission of a case without a hearing does not relieve the parties from the necessity of supplying evidence sufficient to prove the facts supporting their allegations or defenses. Consistent with 801 CMR 1.01, affidavits and stipulations may be employed to supplement other documentary evidence in the record.

10. Decision

a) After reviewing the evidence, the arguments of the parties, and any post-hearing memoranda and briefs submitted by the parties, the Hearing Officer shall, within a reasonable time after the close of the record, render a recommended decision, which shall include a statement of reasons which determines each issue of fact or law necessary to the decision.

b) The Parties shall be provided with a copy of the Hearing Officer's recommended decision, and shall have ten days in which to file written objections or responses to it. Parties may file replies to any such objections or responses within ten days of the receipt of a copy of the objections.

c) The recommended decision of the Hearing Officer shall be reviewed by the Board at the next regularly scheduled meeting after the expiration of the time for filing objections and responses, or at a special Board meeting so convened by the Board.

d) The member and his attorney or representative shall be given notice of the Board meeting at which the recommended decision will be considered. Upon request, a party may present a legal argument, either orally or in writing as the Board may, at its discretion, order, and under such limitations regarding time and scope as may be imposed by the Board.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

e) Consistent with G. L. c.30A, §§18-25, and unless otherwise requested by the member and approved by the Board, consideration of the Hearing Officer's recommended decision shall be conducted in Executive Session. The Board may affirm and adopt the recommended decision in whole or in part, recommit the recommended decision to the Hearing Officer for further findings as it may direct, or take any other action consistent with law as it may deem necessary for the full and fair consideration of the matter. The same procedural provisions applicable to the initial recommended decision shall apply to any re-filed recommended decision after recommitment. The findings and decision of the Board will be deemed its certificate of decision pursuant to G.L. c.32, § 16(3).

f) The member or his attorney or representative shall be provided with notice of the Board's decision, and the time and manner of filing an appeal from it.

11. Right of Appeal

Any party aggrieved by a final decision of the Board may appeal pursuant to the provisions of G.L. c.32, §16(3).

12. Severability

The provisions of 941 CMR 2.10 are severable. If any provision or the application of any provision is held to be invalid or unconstitutional, such invalidity shall not be construed to affect the validity or constitutionality of any remaining provisions of 941 CMR 2.10 or the application of such provisions to administrative proceedings related to G.L. c.32, §15.

Regulatory Authority: G.L. c.32, §1 et seq.; G. L. c.32, §§20 (1)(b) and 20 (5)(b); G.L. c.30, §59; G.L. c. 30A, §§1-17. State Board of Retirement v. Bulger, 446 Mass. 169 (2006); MacLean v. State Board of Retirement, 432 Mass. 339 (2000); Gaffney v. CRAB, 423 Mass. 1, 665 N.E.2d 998 (1996).

Opinion of the Attorney General, March 19, 1962.

Line of Duty Death Benefits

August 1, 1994: Rules pertaining to proceedings, required forms, other required documentation, investigation, hearing, notice, decision, payment (subject to appropriation by legislature) of benefits under §100A. Beneficiary Claim Statement Form also approved.

Conduct of Hearings

June 28, 1993: Proceedings involving removal or discharge or dereliction of duty to be conducted in accordance with administrative rules of adjudicatory procedure.

Date of Board Meetings

December 22, 1992: Retirement board meetings to be held on the last Thursday of the month.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

Administration

December 22, 1992: Job titles of Executive Director and Deputy Director approved in light of assurances that the State Treasurer has approved the designation of titles and duties.

Membership / Creditable Service

December 22, 1992: Persons employed over 20 hours in a regular work week to be enrolled as members; eligible employees to be enrolled at inception of employment; proration of creditable service for part-time employees; higher ed employees to receive 6 months of creditable service for 1 year sabbaticals at half pay.

Buy-Back of Prior Service

December 22, 1992: Buy-back of prior non-membership service of 6 consecutive months or less that was part-time, provisional, temporary, temporary provisional or intermittent and was not immediately followed by membership service not allowed.

Spousal Notification

November 24, 1992: Retirement option of married member to be witnessed by spouse otherwise spouse to be notified.

Proof of Age

November 24, 1992: In lieu of a birth certificate board will accept naturalization papers, passport, baptismal record, high school record or affidavits from three relatives or friends.

Travel Regulations

The State And Mass Turnpike Authority Retirement System has adopted Travel Supplemental Regulations under the provisions of G.L. c. 7, § 50 and G.L. c. 32, § 21(4) that were approved on 6/12/2005.. Regulations available upon written request, and are also available on the PERAC website: <http://www.mass.gov/perac/05travelreg/statetravelreg.html>

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 4 - ADMINISTRATION OF THE SYSTEM

The System is administered by a five-person Board of Retirement consisting of the Treasurer And Receiver General Of The Commonwealth who shall be a member ex-officio, a second member appointed by the Treasurer, a third and fourth member who shall be elected by the members in or retired from the service of the Commonwealth, and a fifth member appointed by the other four board members.

Ex-officio Member: Steven Grossman, Chairman

Appointed Member: Patricia Deal Term Expires: 2/28/2019

Elected Member: Ralph White Term Expires: 12/31/2016

Elected Member: Theresa McGoldrick, Esq. Term Expires: 4/30/2018

Appointed Member: Christopher Condon Term Expires: 2/25/2018

The Board members are required to meet at least once a month. The Board must keep a record of all of its proceedings. The Board must annually submit to the appropriate authority an estimate of the expenses of administration and cost of operation of the system. The board must annually file a financial statement of condition for the system with the Executive Director of PERAC.

The investment of the system's funds is the responsibility of the Board. All retirement allowances must be approved by the Retirement Board. The system has a waiver for superannuation calculations allowing them to bypass the requirement for approval by the PERAC Actuary prior to payment. All expenses incurred by the System must be approved by a majority vote of the Board. Payments shall be made only upon vouchers signed by two persons designated by the Board.

Retirement board members and employees are bonded by an authorized agent representing a company licensed to do business in Massachusetts. Fidelity insurance is the only required policy coverage under Ch 32 §21 and §23 as well as 840 CMR 17.01. The policy is designed to cover specific intentional acts such as theft, fraud or embezzlement and also specify who commits such acts, most commonly employees of the system. This coverage reimburses the system for the losses it suffers as a result of its employees' actions. It does not insure the employees for their illegal acts. Statutorily required coverage is provided by the current fidelity insurance policy to a limit of \$1,000,000 issued through Travelers Casualty and Surety Company. The Plan also is covered under a Fiduciary Liability Policy to a limit of \$2,000,000 issued through RLI Insurance Company.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by the Public Employee Retirement Administration Commission as of January 1, 2015.

The actuarial liability for active members was	\$15,894,551
The actuarial liability for vested terminated members was	746,623
The actuarial liability for non-vested terminated members was	196,766
The actuarial liability for retired members was	<u>16,841,210</u>
The total actuarial liability was	\$33,679,150
System assets as of that date were	<u>22,720,160</u>
The unfunded actuarial liability was	<u>\$10,958,990</u>
The ratio of system's assets to total actuarial liability was	67.5%
As of that date the total covered employee payroll was	\$5,591,911

*In Thousands

The normal cost for employees on that date was	8.7% of payroll
The normal cost for the employer was	4.3% of payroll

The principal actuarial assumptions used in the valuation are as follows:

Investment Return:	7.75% per annum
Rate of Salary Increase:	Varies by group and service

GASB STATEMENT NO. 25, DISCLOSURE INFORMATION AS OF JANUARY 1, 2015

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Cov. Payroll ((b-a)/c)
1/1/2015	\$22,720,160	\$33,679,150	\$10,958,990	67.5%	\$5,590,911	196.0%
1/1/2014	\$21,581,133	\$30,679,600	\$9,098,467	70.3%	\$5,344,510	170.2%
1/1/2013	\$20,317,389	\$29,385,442	\$9,068,053	69.1%	\$5,183,195	175.0%
1/1/2012	\$20,507,644	\$27,784,731	\$7,277,087	73.8%	\$4,922,388	147.8%
1/1/2011	\$21,244,900	\$26,242,776	\$4,997,876	81.0%	\$4,808,250	103.9%
1/1/2010	\$19,019,062	\$24,862,421	\$5,843,359	76.5%	\$4,711,563	124.0%
1/1/2009	\$16,992,214	\$23,723,240	\$6,731,026	71.6%	\$4,712,655	142.8%
1/1/2008	\$20,400,656	\$22,820,502	\$2,419,846	89.4%	\$4,574,233	52.9%

*In Thousands

Chapter 25 of the Acts of 2009 transferred the liabilities and assets of the Massachusetts Turnpike Authority (MTA) Employees' Retirement System to the State Retirement System. These members are included in the January 1, 2010 valuation results and included in the subsequent valuation results along with MTA assets.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS (Continued)

Chapter 61 of the Acts of 2009, as amended by Chapter 102 of the Acts of 2009, transferred active members of the county sheriffs' departments in Barnstable, Bristol, Dukes, Norfolk, Plymouth, and Suffolk Counties to the State effective January 1, 2010. The actuarial liabilities and assets for these members are reflected in the January 1, 2011 actuarial valuation and included in the subsequent valuation results along with MTA assets.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 6 - MEMBERSHIP EXHIBIT

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Retirement in Past Years										
Total Retirements	3,775	2,476	1,717	1,849	2,086	2,373	2,809	3,246	2,988	2,921
Total Retirees, Beneficiaries and Survivors	51,827	51,607	51,250	51,014	51,058	51,411	52,978	54,047	54,921	55,721
Total Active Members	80,122	81,439	82,978	84,339	87,293	86,293	85,632	86,309	85,550	86,714
Pension Payments										
Superannuation	\$679,004	\$756,742	\$774,562	\$797,381	\$831,408	\$859,273	\$916,611	\$975,531	\$1,030,368	\$1,087,581
Survivor/Beneficiary Payments	43,269	44,659	47,148	49,907	52,743	55,451	58,331	\$60,343	\$63,405	\$66,950
Ordinary Disability	8,621	8,667	9,019	9,109	9,026	9,302	9,609	\$9,362	\$9,606	\$9,606
Accidental Disability	60,620	65,540	70,043	80,460	82,095	86,664	91,735	\$92,706	\$97,942	\$100,972
Other	<u>80,357</u>	<u>84,906</u>	<u>84,762</u>	<u>74,635</u>	<u>72,509</u>	<u>70,900</u>	<u>69,172</u>	<u>93,056</u>	<u>100,960</u>	<u>95,543</u>
Total Payments for Year	\$871,871	\$960,514	\$985,534	\$1,011,492	\$1,047,781	\$1,081,590	\$1,145,458	\$1,230,998	\$1,302,282	\$1,360,652

(The dollar amounts are reflected in thousands)

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 7 – LEASED PREMISES

The State Retirement Board leases approximately 11,722 square feet of space for its offices located on the Eighth floor, One Winter Street, in the Downtown Crossing area of Boston. They signed an initial 7-year lease term which will expire May 1, 2019. The cost per square foot include a range from \$28.54 to \$32.69 over the term of the lease. The landlord is Winsum Limited Partnership.

The following schedule displays the minimum lease obligations on non-cancelable operating leases as of June 30, 2013:

<u>For the fiscal year ending:</u>	<u>Annual Rent</u>
2014	\$348,350
2015	\$368,617
2016	\$368,617
2017	\$372,670
2018	\$392,937
2019	\$327,447

Total future minimum lease payments required	\$2,178,637
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NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 8 - SOFTWARE ACQUISITION AND DEVELOPMENT COSTS

The State Retirement Board has made a significant investment in new technology to improve service to its members and retirees. A significant technology initiative was approved that involved a significant upgrade to its technology platform. Additional testing and integration of this phase of the project is currently ongoing. The design is to improve the accuracy and reporting of data throughout the system. The project is currently undergoing an independent validation and verification by an outside vendor. The system anticipates it will go live in fiscal 2016. The estimated total project cost has not been determined pending the results of the current study. The scope of this audit did not include any evaluation of the project other than to determine there was support for the funds expended during the audit period. The project has been extended due to the required implementation of changes to the project related to pension reform.

NOTE 9 - TRANSFER OF PLAN ADMINISTRATION

Chapter 61 of the Acts of 2009, as amended by Chapter 102 of the Acts of 2009, transferred active members of the county sheriffs' departments in Barnstable, Bristol, Dukes, Norfolk, Plymouth, and Suffolk Counties to the State effective January 1, 2010.

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